

## ALM First Partner's Report – 2nd Quarter 2006

By Angela Calvert, ALM First Executive Director

On Saturday, May 13, 2006, we at ALM First, the entire credit union industry, and many others lost a colleague, a volunteer, and – most of all – a very dear friend. At 49 years of age, Mike Osborne, executive vice president and chief financial officer of First Tech Credit Union, passed away. His death is both shocking and tragic, and we would like to dedicate this newsletter in his honor.

Mike was so involved and such a tremendous leader in so many areas that it's impossible to sum up his many contributions in just a few sentences. From serving as chairman of the Beaverton, Oregon, School Board to leading the March of Dimes WalkAmerica in Oregon and Southwest Washington, Mike constantly gave of himself to numerous organizations and his friends. Always willing to help, Mike was an exceptional leader in his community and the credit union industry. He was incredibly intelligent, forward thinking and a true asset to every organization and institution that called on him. ALM First was no exception; Mike was one of the four members of our Advisory Council. His insight and dedication, coupled with his candidness and honesty, will most assuredly be missed.

## Portfolio Optimizer is Better Than Ever

ALM First is proud to offer our financial advisory clients an enhancement to the service - the Portfolio Optimizer. The Optimizer asks one basic question: "Could we increase our income by altering our investment mix?" As financial advisors, we are faced with this question regularly. To answer it, ALM First developed software that finds the absolute maximum amount of yield that could be earned for a specific risk level.

The Portfolio Optimizer uses a Monte Carlo-type simulation, calculating hundreds of allocation combinations to find the appropriate mix to maximize yield for a given level of risk. For example, we can set parameters that indicate that the portfolio must have an effective duration no greater than three percent in the up 300 basis point scenario. We can also define that CMO/MBS cannot be more than 50 percent of the investment portfolio, and that we must maintain at least five percent in cash. The optimizer will then find the portfolio that maximizes the yield given these constraints.

*Continued on page 2*

## Inside this issue

**Portfolio Optimizer is Better Than Ever**

**ALM First's Privacy Policy and Information Security Policy - 2006**

**ALM First Purchases WesCorp Investment Advisory Book of Business**

**Creating Presentation-Quality Accounting Reports**

**Join the ALM First Annual Financial Forum at The Sanctuary on Kiawah Island**

**Ask Emily**

**Welcome to ALM First**

**Employee Spotlight**

**On the Calendar**

# ALM First's Privacy Policy and Information Security Policy – 2006

ALM First considers client information and data confidential. While information and data are fundamental to our ability to provide financial advisory and ALM services, we fully recognize the importance of keeping the information secure, since certain information provided may be non-public, confidential, and proprietary in nature. ALM First protects your credit union information from unauthorized access using established and exacting standards.

We use a series of controls and security safeguards – encompassing both electronic and physical limitations to access – in order to protect client data. ALM First uses digital IDs certified by Verisign, an industry leader in digital ID certificates, to authenticate client information and provide access to a security site for data transfer and the uploading and downloading of information in a protected, encrypted environment. Confidential and proprietary information will not be disclosed by ALM First in any manner, in whole or in part, and shall not be used for any purposes other than providing agreed-upon services. Your privacy is important to us!

You should have received a copy of our 2006 Privacy Policy along with your April 1 invoice. Of course, you may always request a copy of our 2006 Privacy Policy and/or our 2006 Information Security Policy. Please contact Sharon Criswell, Chief Compliance Officer, at 214-987-0860 x116 or [scriswell@almfirst.com](mailto:scriswell@almfirst.com) to request your copy.

The Optimizer provides the most amount of value from a “fresh start” perspective. In other words, how would we allocate the investment portfolio if we had it to do all over again? This allows ALM First to use the Optimizer not only for portfolio analysis, but as an educational tool to demonstrate the importance of asset allocation and its effect on returns. Using the Optimizer, we can show that, even by adding additional risk assets, we can still maintain the desired risk level if the rest of the portfolio is allocated correctly. As a result, our clients and our advisors can make better investment decisions in the coming months.

For a demonstration, and to see the impact of utilizing the Portfolio Optimizer for your credit union's portfolio, please contact your Financial Advisor.

## ALM First Purchases WesCorp Investment Advisory Book of Business

ALM First recently entered into an agreement to purchase the Investment Advisory book of business of WesCorp Investment Services, LLC. Formed in 2000, WesCorp's credit union investment advisory service group has 14 clients with \$1.7 billion under management. The acquisition, which offers us an excellent opportunity for expansion into key West Coast markets, will give ALM First more than \$8 billion in funds under management.

While many benefits have been secured through this alliance, the management structure of ALM

First remains the same, and we continue to operate as an independent organization. “Purchasing the WesCorp book of business will propel the delivery of our financial advisory services to credit unions from coast to coast,” said Emily Hollis, ALM First President. “We remain dedicated to our core values of providing the best financial advisory services to credit unions nationwide, and we will continue to combine the finest minds and technologies in the industry to help credit unions monitor risk, maximize financial performance, and achieve regulatory compliance.”

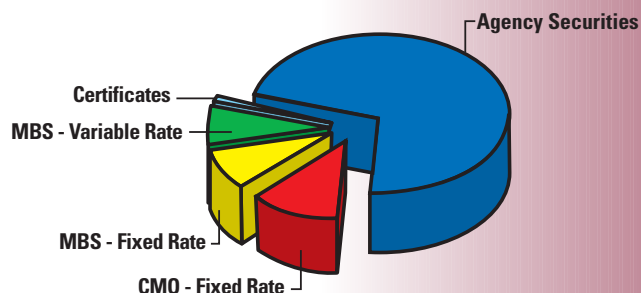
# Creating Presentation-Quality Accounting Reports

Are your accounting reports not quite meeting executive standards? Do you need to summarize data for a presentation or need a different graph? Utilizing a new warehousing tool in our accounting system, ALM First has developed many useful executive summary templates. These reports can be customized to your credit union's specifications and are exportable to the Adobe PDF or Excel formats.

Below is a sample of ALM First's Security Inventory Report with a security type graph. This template includes the most common data fields such as par, book, market, and book yield. However, we can include any data field from your accounting reports.

To learn more about designing a report to meet your credit union's needs, please contact Nancy Graves, Accounting Manager, at extension 101 or [ngraves@almfirst.com](mailto:ngraves@almfirst.com).

*Utilizing a new warehousing tool in our accounting system, ALM First has developed many useful executive summary templates.*



SECURITY INVENTORY REPORT										
04/30/2006										
Cusip	Description	Coupon	Settle Date	Par Value	Book Value	Market Value	Market Price	UnrealizedGL	Book Yield	WAL
3128X1LW5	FHLMC	2.00	06/30/2003	1,000,000	1,000,000	994,800	99.48	-5,200	1.99	0.16
3128X1QU4	FHLMC	2.00	07/07/2003	1,000,000	999,866	994,200	99.42	-5,666	2.06	0.18
3133X9HY9	FHLB	3.13	11/29/2004	1,000,000	1,000,000	993,500	99.35	-6,500	3.13	0.33
3133X14N4	FHLB	2.88	03/05/2004	1,000,000	1,002,422	991,500	99.15	-10,922	2.21	0.37
3128X1JT5	FHLMC	2.15	06/18/2003	1,000,000	1,000,000	981,400	98.14	-18,600	2.15	0.62
31359MNP4	FNMA	4.25	06/02/2003	1,000,000	1,023,613	989,200	98.92	-34,413	2.25	1.21
3134A4RH9	FHLMC	3.50	03/10/2004	1,000,000	1,014,753	978,900	97.89	-35,853	2.40	1.37
3128X1HM2	FHLMC	2.65	05/30/2003	1,000,000	999,313	951,500	95.15	-47,813	2.68	2.08
3134A4UD4	FHLMC	3.63	03/10/2004	1,000,000	1,018,188	966,200	96.62	-51,988	2.83	2.37
Total Agency Securities				9,000,000	9,058,155	8,841,200		-216,955	2.41	0.97
31393BCC7	FNR 2003-36 TK	3.00	04/30/2003	84,640	84,640	84,228	99.51	-412	1.67	0.15
31394HPT2	FHR 2663 QK	3.50	08/29/2003	312,383	312,774	310,282	99.33	-2,492	2.80	0.37
31394RZV4	FHR 2769 JK	3.50	04/02/2004	1,000,000	1,006,345	976,537	97.65	-29,808	2.95	1.39
Total CMO - Fixed Rate				1,397,022	1,403,759	1,371,048		-32,711	2.84	1.09
31340LLP0	FH 180334	8.00	11/30/1999	1,910	1,910	1,955	102.37	45	7.20	1.13
31371K7B1	FN 254790	3.50	04/24/2003	610,600	611,595	572,030	93.68	-39,565	3.36	2.61
31282R3W2	FG M80813	4.00	05/08/2003	568,194	573,076	543,936	95.73	-29,140	3.66	2.98
Total MBS - Fixed Rate				1,180,704	1,186,581	1,117,921		-68,660	3.51	2.79
31346AFV2	FH 420180	4.60	11/30/1999	37,146	37,146	37,023	99.67	-123	3.54	4.43
31346VHK8	FH 390234	4.44	11/30/1999	94,344	94,344	94,047	99.69	-297	3.54	4.64
313617NN8	FN 52597	4.60	11/30/1999	81,122	81,122	81,356	100.29	234	4.84	4.68
31346TLZ5	FH 400344	6.50	11/30/1999	35,028	35,028	35,350	100.92	322	6.93	6.83
31404E3C8	FN 766795	3.57	05/04/2004	473,968	479,597	468,472	98.84	-11,125	6.24	7.84
31346VHJ1	FH 390233	4.44	11/30/1999	54,673	54,673	54,749	100.14	76	3.58	8.08
Total MBS - Variable Rate				776,282	781,910	770,998		-10,912	5.48	6.93
9SUNCIF3	CIF	3.00	04/17/2006	100,000	100,000	100,000		0	3.00	0.21
Total Certificates				100,000	100,000	100,000		0	3.00	0.21
				12,454,008	12,530,406	12,201,167		-329,239	2.76	1.52

# Join the ALM First Annual Financial Forum at the Sanctuary on Kiawah Island

It's hard to believe the year is almost half over, and that the summer heat will soon sizzle in Dallas. As we get ready for the next round of quarterly reports, we are also preparing for the Financial Forum – August 9-11, 2006, at The Sanctuary on Kiawah Island.

Take a moment to visit The Sanctuary's website – [www.thesanctuary.com](http://www.thesanctuary.com) – and learn more about this wonderful property. For starters, the resort offers private access to one of America's finest beaches. Biking on the flat sands of Kiawah or its 30 miles of paved bike trails is a must-do on your visit.



Ocean Course #15

Swimming, canoeing, kayaking, bicycling, cookouts, and nature walks are just some of the extraordinary activities that are available to guests of The Sanctuary at Kiawah Island. It's no surprise that *Condé Nast Traveler's* readers have voted Kiawah Island among the "Top 20 Islands in The World" for resort activities.

For the children, there's Kamp Kiawah, a supervised, fun-filled activity program for ages 3 to 11. Established two decades ago, Kamp Kiawah keeps children enthralled with its Pirate Escapades, Nature Adventure Days, Tye Dye Days, Sand Sculpting, Hula Contests, Relay Races, and more.

If you have questions, or would like to schedule an activity during your stay, please call the Nature Center reservation line at 843-768-6001.

Of course, the recreational activities are only one reason to attend. You'll also have plenty of education and networking opportunities during the Financial Forum. Again this year, we will offer a pre-conference workshop beginning Wednesday, August 9, at 1 p.m. with concurrent breakout sessions. Conference registration will take place from noon to 4 p.m. on August 9 and the morning of August 10. Of course, we can't forget the famous ALM First Poker Game, which will be held on Wednesday night beginning at 8:00 p.m. Practice up!

The full agenda can be found on our website – [www.almfirst.com](http://www.almfirst.com) – by clicking on The Sanctuary logo on our homepage and then navigating to the bottom of the Financial Forum page.



THE  
SANCTUARY  
AT KIAWAH ISLAND  
GOLF RESORT



Sanctuary lobby bar



Beach sunrise birds

# Ask Emily

**Our credit union has never designated securities as “Available for Sale” (AFS). Instead, we have always designated them as “Held to Maturity” (HTM), since we never sell. What do you think of this practice?**

I am in favor of placing all securities in the “Available for Sale” category. The reason credit unions are reluctant to do so is the potential fluctuation of capital caused by the AFS unrealized loss contra account. For certain measurements, capital will be netted by this amount. In addition, board members might question a number should it become materially negative.

The benefits of designating securities as AFS are numerous. Should a credit union need liquidity, it might be economically advantageous to sell securities versus borrowing. Another benefit is the opportunity of actively managing the investment portfolio by selling a sector that might be “rich”<sup>1</sup> and buying a sector that might be “cheap.”

The unrealized loss exists whether the investment is a share certificate or a security placed in the AFS or HTM category, so education is the key if you decide to change your designation practices in future purchases. Corporate credit union bullet share certificates have a certain advantage to securities, since they do not have to be classified as either AFS or HTM; however, the securities are marketable and therefore can be sold at a gain or loss.

In any event, should there be hesitation about designating the *entire* portfolio as AFS, there are certain types of securities that should take preference in AFS designation, such as bullet securities.<sup>2</sup> Bullet securities in the form of Agencies and Treasuries are the most marketable securities available to natural person credit unions, meaning that the difference between the purchase and sale price is minimal. They should therefore always be placed in the AFS portfolio. Also, remember that bullet securities will outperform any other type of security in a falling rate environment and will have the most gain. These are gains that you might want to take advantage of should rates fall.

I would place callable securities in the AFS portfolio, too. Although they are very poor performers in a falling rate environment, their spreads generally compress as rates rise, and you may have some trading opportunities – as long as you are not afraid of taking investment losses. Should the callable security have a one-time call option, the security could turn into a bullet and, once again, the credit union could take gains should rates rise and then fall.



## Welcome to ALM First!

Buffalo Service CU  
Buffalo, New York  
Bill Bund, President  
\$31 Million in assets

Tropical Financial CU  
Miramar, Florida  
Greg Blount, President  
\$692 Million in assets

Kaiperm FCU  
Oakland, California  
Richard Herbert, President  
\$137 Million in assets

United SA FCU  
San Antonio, Texas  
Stephen Coomes,  
President & CEO  
\$211 Million in assets

Kern FCU  
Bakersfield, California  
Deann Straub, President  
\$213 Million in assets

*Continued on page 6*

## Ask Emily *Continued from page 5*

Do not feel compelled to place your CMOs in the AFS portfolio. Although it is a good practice, they generally are not as marketable as pass-through mortgages, and definitely not as marketable as bullet securities. Remember, the more volatility in the structure, the less marketable. Years ago, credit unions always designated CMOs as AFS in case they did not pass the "high risk" test at some point and a sale could be forced by examiners. However, the high risk test was abandoned in 1998 and this is no longer a concern. Also, if you indeed designate these securities as HTM, make sure you check internal policies to ensure that a forced liquidity is not present in the event of weighted average life extension.

So, to answer your question, I would recommend educating all concerned and place the entire portfolio in AFS. If that is not possible, ensure that you have not designated the wrong types of securities in the wrong categories.

*1 "Rich" is defined as a security that trades at a tight spread to a relative index.*

*2 Bullet securities are those securities that have no embedded options such as callable or amortizing features.*

## Employee spotlight



### **Jiwen Chen, Senior Financial Analyst**

I joined ALM First in February of 2004, and have shared a rewarding and challenging work experience with more than 20 clients over the past two years.

My official title is senior financial analyst. On a daily basis, I support Managing Director Tom Manley in providing ALM and investment management service to our clients. This means a lot of data crunching and a considerable amount of time spent at my desk working on my computer.

When Tom is traveling on business, I also serve as his backup to make sure our clients receive prompt responses to their requests and questions.

I originally came to the United States in 2001 from Shanghai, the big famous city in eastern China, to pursue my MBA at the University of Notre Dame. Before beginning my MBA studies, I had four years of work experience as a financial analyst. The focus for my MBA study was investments and corporate finance.

The year 2004 was a big one for me. I moved to Dallas, joined ALM First, and later that year received my CFA designation. I am now settled in Dallas, and enjoy all the great things this city has to offer. In the future, I look forward to continuing to serve our clients.

## On the Calendar

### **Financial Managers Society The Finance & Accounting Forum**

June 25 - 27, 2006

Nashville, Tennessee

Emily Hollis will present "Managing a High-Performance Credit Union and Balance Sheet"

### **29th Annual National Directors' Convention**

August 1-3, 2006

Las Vegas, Nevada

Emily Hollis will present "Investments: Is Your Credit Union Money Working Hard Enough?"

### **ALM First Annual Financial Forum**

August 9-11, 2006

The Sanctuary

Kiawah Island, South Carolina

### **NCUA Regional Conference**

August 24, 2006

Dallas, Texas

Emily Hollis will present "Derivatives"

### **The 2006 Aerospace Conference at the Gaylord Texan Resort**

October 23, 2006

Grapevine, Texas

Emily Hollis will present "Asset Liability Management"

## CONTACT INFORMATION

ALM First Financial Advisors, LLC  
6688 North Central Expressway,  
Suite 200

Dallas, Texas 75206

(800) 752-4628

[www.almfirst.com](http://www.almfirst.com)